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SUBJECT: FIRST LADY: CABINET SHAKEUP COMING SOON

Classified By: PolChief Erik Hall for reason 1.4 (b&d)

11. (C) Summary: First Lady Maria Paret de Palacio called on the Ambassador on December 9 to share President Palacio's intended Cabinet changes in advance of a public announcement which she implied was imminent. The First Lady said Palacio wished to assure the USG that Alfredo Castillo, his choice for Government Minister, would not have negative implications for Ecuador's good relations with the U.S. End Summary.

12. (U) Speculation has been rampant over Palacio's contemplated cabinet shakeup since December 7, when all cabinet members were required to submit letters of resignation for the president's consideration. Presidential Secretary General of Administration (chief of staff

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equivalent) Luis Herreria stepped down on December 2, to be replaced by rival presidential advisor Jose Modesto Apolo, presaging the internal conflict and jockeying underway. Press had speculated that Defense Minister Oswaldo Jarrin was likely to go, given the president's abrupt changes to the military high command while Jarrin traveled abroad. The First Lady met with the Ambassador on December 9, carrying a message from the President that she said he preferred be relayed in person since he thinks his phones are tapped.

13. (C) President Palacio intended to make the following changes to his Cabinet, she said:

-- Government: Galo Chiriboga will return to his post as Labor Minister, and be replaced in the Government (Interior) ministry by presidential advisor Alfredo Castillo.

-- Economy/Finance: Magdalena Barreiro will be replaced by Eduardo Cabezas, the current president of the Central Bank. Barreiro is the subject of soon to be public allegations of corruption, according to the First Lady. She will be replaced by Eduardo Cabezas, a former diplomat and economic official recent appointed president of the Central Bank.

-- Education: Consuelo Yanes Cossio ("she is so weird," the First Lady commented) will be replaced by writer and educator Raul Vallejo.

Defense Minister Jarrin and Energy Minister Ivan Rodriguez would not be changed, despite press speculation to the contrary, she said, nor would "the other ladies" (Tourism and Environment ministers) in the cabinet. (Note: Jarrin confirmed he was staying in a phone conversation with the Ambassador that same morning.) After last-minute pleading by his wife to the First Lady, a long-time friend, Social Welfare Minister Alberto Rigail will be permitted to serve a few more months, but has been put on notice that he must be more productive. No mention was made by the First Lady of Foreign Minister Carrion, whose position has not been the subject of any speculation.

14. (C) According to the First Lady, President Palacio had asked her to speak with the Ambassador because he was concerned that his intended Government Minister, whose position is first among equals in the cabinet, might cause USG concern about a possible Palacio government shift toward the left of the political spectrum. That is certainly not the case, the First Lady assured the Ambassador. Castillo is certainly a leftist, but is less hard-line than in the past, she said. She said that Palacio told Castillo that he must stay out of issues that affect the U.S., including the FTA, Occidental Petroleum, and existing agreements with the U.S. including the Manta basing accord. Those issues would be handled directly by the president.

15. (C) The Ambassador thanked the First Lady for informing her of these prospective changes, and urged that regardless of the changes, the Government resist any temptation to depart from fiscal responsibility in an election year and seize the opportunity offered by an FTA with the U.S. in 2006. The First Lady was optimistic about prospects for the signing of an FTA with the U.S., saying "we'll get there."

Reform Hopes Dead or Reborn?

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16. (C) Dr. Alfredo Castillo Bujase, Palacio's apparent choice for his highest-ranking minister, was the founder of the now-defunct Marxist National Liberation Party, was an advisor to disgraced populist president Abdala Bucaram and was the running-mate of populist banana magnate Alvaro Noboa.

A well-connected politician from the ID party had recently told us that Castillo and another prominent leftist, presidential advisor Pedro Saad, had been the key advisors to the president on his failed initiative to compel a referendum on a national constituent assembly. That initiative was roundly rejected by the Supreme Electoral Tribunal on December 5, after Congress intervened to readjust the tribunal's composition. However, after being rebuffed for a second time by the Tribunal, the President again publicly appealed for citizens to express their support for reform in a nationally televised address on December 7.

17. (C) According to the First Lady, Castillo's appointment would come after Palacio had played his last card on the referendum. "Alfredo (Palacio) did all he could to advance the cause of the assembly," she said. "Now it is up to the people to press Congress from the streets." Asked if she thought the people would act, after Palacio took to the airwaves to encourage them to do so, Paret confessed she did not.

#### Job Taking its Toll on Sleepless President

18. (C) Paret lamented that members of the political opposition were actively seeking grounds to impeach the president, most recently looking into presidential spending during his weekly visits to his hometown, Guayaquil. She complained that Palacio's health was suffering from his work, citing his high blood pressure and persistent insomnia in the capital (but not on the coast). He is being treated by his daughter, a doctor practicing in the United States. She said that he was now re-directing his energy to his project for a new national health plan, spending hours every afternoon sequestered with advisors.

#### Comment

19. (C) The appointment by Cabezas to the Finance Ministry would not appear to signal any significant change in policy, and his establishment background hopefully portends smooth relations with the international financial community. The decision to retain Jarrin at Defense is very good news as is the decision to keep Rodriguez at Energy. But Castillo's appointment, regardless of Palacio's efforts to shield our bilateral relations, is troubling. The Minister of Government is typically the Executive Branch liaison with the Congress, and we would worry about his role in an eventual effort to pass the FTA through congress. Despite the First Lady's assurances, Castillo will likely become involved in issues that affect us. As one of the advisors who apparently helped to create the current political confrontation between Palacio and Congress, Castillo is more likely to make those relations worse in his new, more prominent role. His leftist leanings, however moderated, will almost certainly alienate the powerful Social Christian party. Castillo's appointment could indicate a political accord with PRIAN leader Noboa.

110. (C) We will carefully watch Castillo's behavior and express concern to the President if his assurances regarding our interests are violated. The Ambassador lauded his decision to retain Jarrin and Rodriguez. We had heard no rumors of corruption regarding Minister of Economy Barreiro. If the allegations are true, she should be removed. However, her dismissal after Ecuador's successful private market financing of \$650M in bonds this week and her leadership returning Ecuador to a more responsible fiscal policy could create more uncertainty about Palacio's commitment to sound fiscal management.

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